

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Traverse City Traffic & Land Use Study	County Grand Traverse
Fiscal Year End 9/30/05	Opinion Date 12/30/05	Date Audit Report Submitted to State 5/18/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Yellow Book Report	
Certified Public Accountant (Firm Name) J L Stephan Co, PC		Telephone Number 231-941-7600	
Street Address 862 E. Eighth St/		City Traverse City	State MI
		Zip 49686	
Authorizing CPA Signature 		Printed Name Jerry Stephan	License Number 110100359

TC TALUS

Grand Traverse County

Audited Financial Statements

For the Year Ended September 30, 2005

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FINANCIAL SECTION



J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty Szasz, CPA
David Skibowski, Jr., CPA

INDEPENDENT AUDITOR'S REPORT

TC TALUS
400 Boardman Ave
Traverse City, MI 49684

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of TC TALUS as of and for the year ended September 30, 2005 which collectively comprise the organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of TC TALUS. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of TC TALUS as of September 30, 2005 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of October 1, 2003. The accompanying statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of the basic financial statements.

The budgetary comparison information on pages 11 and 12 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

J. L. Stephan Co. P.C.

December 30, 2005

TC TALUS
Government Wide
Statement of Net Assets
September 30, 2005

Exhibit A

	<i>Governmental Activities</i>
Assets	
Cash in Bank	\$ 40,713
Accounts Receivable	41,677
Capital Assets - net	<u>1,511</u>
<i>Total Assets</i>	<u>83,901</u>
 Liabilities	
<i>Liabilities</i>	
Accounts Payable	15,212
Deferred Revenue	<u>-</u>
<i>Total Liabilities</i>	<u>15,212</u>
 Net Assets	
Investment in Capital Assets	1,511
Restricted	-
Unrestricted	<u>67,178</u>
<i>Total Net Assets</i>	<u><u>\$ 68,689</u></u>

The Notes to Financial Statements are an integral part of this statement

TC TALUS
Government Wide
Statement of Activities
For the Year Ended September 30, 2005

Exhibit B

Functions/Programs	<i>Expenses</i>	Program Revenues			Net (Expense)
		<i>Charges</i>	<i>Operating</i>	<i>Capital</i>	Revenue & Changes in Net Assets
		<i>for Services</i>	<i>Grant & Contributions</i>	<i>Grants & Contributions</i>	<i>Governmental Activities</i>
General Government	\$ -	\$ -	\$ -	\$ -	\$ -
Public Safety	-	-	-	-	-
Public Works	-	-	-	-	-
Health and Welfare	179,211	-	168,986	-	(10,225)
Community & Economic Development	-	-	-	-	-
Recreation & Culture	-	-	-	-	-
<i>Total Governmental Activities</i>	<u>\$ 179,211</u>	<u>\$ -</u>	<u>\$ 168,986</u>	<u>\$ -</u>	<u>(10,225)</u>
<i>General Revenues</i>					
Property Taxes					-
State Shared Revenue					-
Interest Earned					859
<i>Special Items</i>					
Loss on Scrapped Asset					(784)
Net Transfers In (Out)					-
<i>Total General Revenues and Transfers</i>					<u>75</u>
<i>Change in Net Assets</i>					<u>(10,150)</u>
Net Assets - Beginning					<u>78,839</u>
Net Assets - Ending					<u>\$ 68,689</u>

The Notes to Financial Statements are an integral part of this statement

TC TALUS
Governmental Fund
Balance Sheet
September 30, 2005

Exhibit C

	<i>General Fund</i>	<i>Railroad Environmental Assessment Fund</i>	<i>Non-Major Governmental Funds</i>	<i>Total Governmental Funds</i>
Assets				
Cash in Bank	\$ 27,767	\$ 12,946	\$ -	\$ 40,713
Accounts Receivable - MDOT	5,250	-	-	5,250
Accounts Receivable - FHWA	30,427			30,427
Accounts Receivable - County	6,000	-	-	6,000
Total Assets	\$ 69,444	\$ 12,946	\$ -	\$ 82,390
Liabilities and Fund Balances				
<i>Liabilities</i>				
Accounts Payable	\$ 15,212	\$ -	\$ -	\$ 15,212
Deferred Revenue	-	-	-	-
Total Liabilities	15,212	-	-	15,212
<i>Fund Balances</i>				
Fund Balance	54,232	12,946	-	67,178
Total Fund Balances	\$ 54,232	\$ 12,946	\$ -	\$ 67,178
Total Fund Balance - All Governmental Funds				\$ 67,178
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>				
Capital Assets of \$3,479 net of accumulated depreciation of (\$1,968) are not financial resources and are not reported in the funds				1,511
Net Assets of Governmental Activities				\$ 68,689

The Notes to Financial Statements are an integral part of this statement

TC TALUS
Governmental Fund
Statement of Revenue, Expenditures and
Changes in Fund Balance
For the Year Ended September 30, 2005

Exhibit D

	<i>General Fund</i>	<i>Railroad Environmental Assessment Fund</i>	<i>Non-Major Governmental Funds</i>	<i>Total Governmental Funds</i>
<i>Revenues</i>				
State Grants	\$ 96,736	\$ -	\$ -	\$ 96,736
Local Units Contributions	72,250	-	-	72,250
Interest Earned	734	119	6	859
<i>Total Revenue</i>	<u>169,720</u>	<u>119</u>	<u>6</u>	<u>169,845</u>
<i>Expenditures</i>				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Community & Economic Development	180,683	39	-	180,722
Recreation & Culture	-	-	-	-
<i>Total Expenditures</i>	<u>180,683</u>	<u>39</u>	<u>-</u>	<u>180,722</u>
<i>Excess Revenues Over (Under)</i>				
<i>Expenditures</i>	(10,963)	80	6	(10,877)
<i>Other Financing Sources (Uses)</i>				
Operating Transfer In	1,556	-	-	1,556
Operating Transfer (Out)	-	-	(1,556)	(1,556)
<i>Total Other Financing Sources (Uses)</i>	<u>1,556</u>	<u>-</u>	<u>(1,556)</u>	<u>-</u>
<i>Excess Revenues and Other Sources Over</i>				
<i>(Under) Expenditures and Other Uses</i>	(9,407)	80	(1,550)	(10,877)
Fund Balance - Beginning of Year	63,639	12,866	1,550	78,055
Fund Balance - End of Year	<u>\$ 54,232</u>	<u>\$ 12,946</u>	<u>\$ -</u>	<u>\$ 67,178</u>
<i>Amounts reported for governmental activities in the statement of activities</i>				
<i>are different because:</i>				
<i>Net Change in Fund Balances - Total Governmental Funds</i>				\$ (10,877)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is				
allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,679)				
exceeds depreciation (\$168) in the current period.				1,511
Loss on scrap of old computer				(784)
<i>Change in Net Assets of Governmental Activities</i>				<u>\$ (10,150)</u>

The Notes to Financial Statements are an integral part of this statement

TC TALUS
Note to Financial Statements
September 30, 2005

Note 1 - Summary of Significant Accounting Policies

The financial statements of TC TALUS (Traverse City Area Transportation and Land Use Study) have been prepared in conformity with the modified accrual basis of accounting as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of TC TALUS's accounting policies are described below.

Effective October 1, 2003, TC TALUS adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in these statements include the following:

- Depreciation of capital assets owned by TC TALUS.
- Financial statements using the modified accrual basis of accounting for all TC TALUS's activities as adjusted for capital assets and depreciation.

A. Reporting Entity

TC TALUS is an Inter-municipality Committee established under Act 200 of 1957 of the Public Acts of Michigan. TC Talus was established to provide coordinated leadership and direction for the development and conduct of a continuing, cooperative, and comprehensive transportation planning process for the purposes of complying with the intent of the applicable sections of the Federal Highway Act of 1964, as amended. TC TALUS is governed by a board of directors primarily designated by each of the member units.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability.

TC TALUS operates as an autonomous agency completely separate from Grand Traverse County or any of the other member units, and is not financially accountable to any other unit. On this basis, accordingly, the financial statements of TC TALUS will not be included in the financial statements of any other organizations.

B. Government Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

TC TALUS
Note to Financial Statements
September 30, 2005

Note 1 - Summary of Significant Accounting Policies - continued

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The local unit reports the following major governmental fund:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from state distributions and other intergovernmental revenues.

Special Revenue Funds - This fund type is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action. The two special revenue funds currently maintained by TC Talus are the Railroad Environmental Assessment Fund and the M-72 East Corridor Study Fund. The Railroad Environmental Assessment Fund is a major governmental fund.

D. Assets, Liabilities, and Net Assets or Equity

The following is a summary of the local unit's assets, liabilities, and net assets or equity:

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of 90 days or less.

Capital/Fixed Assets – Capital assets represent the fixed assets of the local unit utilized in its general operations (non-proprietary fixed assets) and are depreciated using the straight line method.

TC TALUS
Note to Financial Statements
September 30, 2005

Note 1 - Summary of Significant Accounting Policies - continued

Fixed assets are recorded at historical cost. Donated fixed assets are required to be valued at the fair market value as of the date received.

In accordance with GASB 34, depreciation has been provided on the fixed assets. Depreciation is computed over the estimated useful lives of the asset. Estimated useful lives are generally five years for equipment.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Stewardship, Compliance and Accountability

A. Budgets

The General Fund and Special Revenue Fund are under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budget approved and amended by the unit.

In the body of the combined financial statements, the unit's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the unit for these budgetary funds were also adopted at the activity level.

Encumbrance accounting is not used and appropriations normally lapse at year-end.

B. Budget Compliance

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, the Organization had expenditures in excess of amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund: Administration	\$ 21,500	\$ 27,533	\$ (6,033)
General Fund: Public Information	20,100	24,720	(4,620)
General Fund: TCSP	66,736	70,199	(3,463)
General Fund: Indirect Charges	9,000	13,395	(4,395)
Railroad Environmental Assessment Fund			
Indirect Expenses	-	39	(39)

TC TALUS
Note to Financial Statements
September 30, 2005

Note 4 – Deposits with Financial Institutions

A. Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by act No. 217, Public Acts of 1982 and Public Act 196 of 1997, states local units, by resolution, may authorize the Treasurer to invest surplus funds as follows:

- a. In bonds and other direct obligations of the United State or an agency or instrumentality of the United States.
- b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with Subsection (2).
- c. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase.
- d. In United States government or federal agency obligation repurchase agreements.
- e. In banker's acceptances of United States banks.
- f. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

B. Types of Deposits and Investments

TC TALUS maintains all its surplus funds with a local bank in the form of a savings/checking account. Interpreting the FDIC insurance coverage of \$100,000 per deposit to apply to the total savings/time deposits separately from checking/demand deposits for purposes of applying the \$100,000 limit, the bank balances as of September 30, 2005 appear to be fully insured.

Note 5 - Changes in General Fixed Assets

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Equipment				
Computer	\$ 1,961	\$ 1,679	\$ (1,961)	\$ 1,679
Traffic Counter	<u>1,800</u>	<u>-</u>	<u>-</u>	<u>1,800</u>
Subtotal	3,761	1,679	(1,961)	3,479
Less: Depreciation	<u>(2,977)</u>	<u>(168)</u>	<u>1,177</u>	<u>(1,968)</u>
Total	<u>\$ 784</u>	<u>\$ 1,511</u>	<u>\$ (784)</u>	<u>\$ 1,511</u>

All depreciation is charged to the General Fund.

TC TALUS
Note to Financial Statements
September 30, 2005

Note 6 - Risk Management

TC Talus employees are insured through the Grand Traverse County Road Commission's insurance policy for errors and omissions, liability, and wrongful acts, worker's compensation, and property damage coverage. It does not appear that board members or the entity itself are covered under the Grand Traverse County Road Commission's insurance policy. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7 - Lease

On January 3, 1995 TC Talus entered into a lease agreement with Grand Traverse County for the rental of its office facilities at \$132.38 per month. The lease is renewable annually each year. Thirty days prior to expiration of the lease, TC Talus needs to notify Grand Traverse County of its intent not to renew the lease. If TC Talus does not provide the notice, the lease shall be extended for another year at the adjusted rental rate. The annual rent shall be adjusted by multiplying the percentage increase or decrease of the preceding Detroit June Consumer Price Index to the previous year's rental rate.

SUPPLEMENTAL DATA

TC TALUS
Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2005

Schedule 1

	<i>Original Budget</i>	<i>Revised Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Bund Balance	\$ 63,639	\$ 63,639	\$ 63,639	-
<i>Revenues</i>				
State Grants	96,736	96,736	96,736	-
Local Units Contributions	66,250	72,250	72,250	-
Interest Earned	-	-	734	734
Transfers From Other Funds	-	-	1,556	1,556
	226,625	232,625	234,915	2,290
<i>Expenditures</i>				
Administration	21,500	21,500	27,533	(6,033)
Public Information	14,100	20,100	24,720	(4,620)
Traffic Counts	3,000	3,000	2,366	634
Traffic Models	9,500	13,500	12,697	803
Master Planning	30,150	30,150	24,953	5,197
TCSP	66,736	66,736	70,199	(3,463)
Boardman River Project	2,000	-	-	-
Rail Rationalization	2,000	-	-	-
Audit/Accounting	5,000	5,000	4,820	180
Indirect Charges	9,000	9,000	13,395	(4,395)
Transfer to Other Funds	-	-	-	-
<i>Total Charges to Appropriations</i>	162,986	168,986	180,683	(11,697)
Budgetary Fund Balance	\$ 63,639	\$ 63,639	\$ 54,232	\$ (9,407)

The Notes to Financial Statements are an integral part of this statement

TC TALUS
Budgetary Comparison Schedule
Railroad Environmental Assessment Fund
For the Year Ended September 30, 2005

Schedule 2

	<i>Original Budget</i>	<i>Revised Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Bund Balance	\$ 12,866	\$ 12,866	\$ 12,866	-
<i>Revenues</i>				
State Grants	-	-	-	-
Local Units Contributions	-	-	-	-
Interest Earned	-	-	119	119
Transfers From Other Funds	-	-	-	-
	12,866	12,866	12,985	119
<i>Expenditures</i>				
Administration	-	-	-	-
Indirect Charges	-	-	39	(39)
Transfer to Other Funds	-	-	-	-
<i>Total Charges to Appropriations</i>	-	-	39	(39)
Budgetary Fund Balance	<u>\$ 12,866</u>	<u>\$ 12,866</u>	<u>\$ 12,946</u>	<u>\$ 80</u>

The Notes to Financial Statements are an Integral part of the statement

OTHER INFORMATION (UNADUTIED)

TC TALUS

Comments and Recommendations

We have audited the financial statements of TC TALUS for the year ended September 30, 2005 and have issued our report thereon dated December 30, 2005. As part of our examination, we considered TC TALUS's internal control structure. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

In a continuing effort to improve the accounting system, financial reporting, and overall management, we offer the following comments and recommendations for you to consider.

General

The accounting records in good condition. Recorded revenues were deposited timely and intact, journals and ledgers were properly posted, Board minutes were maintained in good order and supporting documents and follow-up procedures appeared to be in good order.

Year-End Reports

The year-end report balances did not reconcile with those in the general ledger. The year-end report appears to be presented on the cash basis, however, the general ledger reflected accruals for year-end accounts receivables and payables. We recommend making year-end accruals before the year-end report is submitted to the board or provide a separate report based on an accrual basis.

Budgeting

We noted budget amendments were made at year end. However, the amendments appear to have been made before year end accruals we posted. This and unexpected program over runs caused over expenditure of budgeted amounts. On occasion, an increase of budgeted expenditures is required from a fund balance to maintain budget compliance. We recommend making budget amendments after final year end accruals.

Beginning Balances

We noted the beginning balance of accounts receivable and payable were not the same as the prior year ending balance. Consequently, revenues and expenditures were overstated. We recommend greater care be taken to ensure year-end account balances are the same as the beginning balances for the subsequent year.

Closing Comments

We will be happy to discuss any of these recommendations with you and assist you in their implementation. Should any questions arise on these financial statements or the conduct of our audit, please call upon us.

FEDERAL FUNDS SECTION



J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty Szasz, CPA
David Skibowski, Jr., CPA

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TC TALUS
400 Boardman Ave
Traverse City, MI 49684

We have audited the financial statements of the governmental activities and each major fund of the Traverse City Transportation and Land Use Study (TC TALUS), Grand Traverse County, Michigan as of and for the year ended September 30, 2005, which collectively comprise TC TALUS's basic financial statements and have issued our report thereon dated December 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered TC TALUS's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether TC TALUS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the TC TALUS's in a separate letter as part of the audited financial statements.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 30, 2005